MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2018/2019

BFE2074 – FINANCIAL ECONOMICS

(All sections / Groups)

29 MAY 2019
9.00 a.m - 11.00 a.m
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of **FIVE (5)** pages, including the cover page.
2. There are **FOUR (4)** questions, attempt all of them. Each question carries equal marks; and distribution of the marks for each sub-question is given.
3. Please write all your answers in the Answer Booklet provided .

Question 1

(a) In measuring different types of economic activities, economists typically separate an economic sector into two; which are:

(i) Real sector

(2 marks)

(ii) Financial sector

(2 marks)

Describe these two sectors; with examples.

(b) Identify how each of the following transactions will be classified and recorded in the debit and credit of Malaysia's balance of payments.

(i) A Japanese insurance company purchases Malaysia's Treasury bonds worth RM100,000 and pays out of its bank account kept in Kuala Lumpur.

(4 marks)

(ii) A Malaysian citizen consumes a meal at a restaurant in Paris for RM700 and pays with her Maybank VISA credit card.

(4 marks)

(iii) An Indian immigrant living in Seremban sends a RM2,000 cheque drawn on his CIMB bank account as a gift to his parents living in Bombay.

(4 marks)

(iv) A Malaysian programmer is hired by a British company for consulting and gets paid RM8,000 from the Malaysian bank account maintained by the British company.

(4 marks)

Write your answers in a table format; as in **Table 1** below.

Continued...

Table 1
Malaysia Balance of Payment

Transactions	Credit	Debit
1. Malaysia student travels abroad; spending RM1000 on hotel and food. ● Services - consumed as a tourist on hotel and food.		RM1000
● Foreign assets in the home country - Malaysian student spends money abroad during holiday; capital inflow.	RM1000	

(c) What does it mean by a nation being a net debtor? Discuss the pros and cons of being a net debtor.

(5 marks)

Question 2

(a) Explain the term discounted present value.

(3 marks)

(b) A bond with a face value of RM20,000 at a the market interest rate of 7% and receives three annual payments of RM1,000 which matures within 3 years' time. At the end of the third year, the bondholder receives a total of RM21,000 (principal + interest). Calculate the discounted present value of this amount.

(7 marks)

(c) Based on the same scenario in Question 1 (b), in the absence of transaction costs and risks, calculate the market value of the three-year bond with a face value of RM20,000 and coupon return of RM1,000 when the market interest rate is 7%.

(5 marks)

Continued...

(d) Explain a perpetuity bond.

(3 marks)

(e) If a perpetuity bond pays RM200 per year continuously with market interest rate of 6%, calculate the price of this perpetuity bond.

(4 marks)

(f) Explain the relationship between price of an existing bond and nominal interest rate; holding the coupon payment and all other factors unchanged.

(3 marks)

Question 3

(a) Explain the term equilibrium flow of total expenditures and real income.

(2 marks)

(b) Explain the **THREE (3)** types of unemployment rates; supported by a relevant example each.

(9 marks)

(c) Construct the equilibrium national income curve. Make sure to label your diagram; which includes the x-axis and y-axis, 45-degree line, national income curve and the equilibrium point.

(4 marks)

(d) Analyze the impacts to the economy's balance of payments when an expansionary monetary policy is adopted with a fixed exchange rate. Support your answer with a diagram.

(10 marks)

Continued...

Question 4

(a) Analyze the aggregate demand schedule; with the support of a graph.

(5 marks)

(b) If there is an increase in the money stock in a closed economy, how will this situation affect the aggregate demand curve? Support your answer with an illustration of a diagram. Make sure to include the following curves in your diagram.

(i) IS
(ii) LM
(iii) Aggregate demand

(10 marks)

(c) Examine the factors that determine the extent to which changes in the quantity of money can influence aggregate demand in an open economy.

(5 marks)

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